

**Department of Finance and Administration  
Office for Information Resources  
March 2004**

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STATE OF TENNESSEE  
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John G. Morgan  
Comptroller

March 11, 2004

The Honorable John S. Wilder  
Speaker of the Senate  
The Honorable Jimmy Naifeh  
Speaker of the House of Representatives  
The Honorable Thelma M. Harper, Chair  
Senate Committee on Government Operations  
The Honorable Mike Kernell, Chair  
House Committee on Government Operations  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the performance audit of the Office for Information Resources within the Department of Finance and Administration. This audit, one of a series of audits on the department, was conducted pursuant to the requirements of Section 4-29-111, *Tennessee Code Annotated*, the Tennessee Governmental Entity Review Law.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the Department of Finance and Administration should be continued, restructured, or terminated.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/dw  
03-089

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit  
**Office for Information Resources (OIR)**  
March 2004

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## AUDIT OBJECTIVES

The objectives of the audit were to determine the duties and responsibilities for the Office for Information Resources (OIR), to assess the operations of the office, and to develop possible alternatives for legislative and administrative actions that could result in more efficient and effective operations of the office.

## FINDINGS

### **The Information Systems Council (ISC) Has Met Only Twice Since March 2001**

Without the oversight that the ISC was intended to provide, OIR cannot establish and move on policy issues (short- or long-term) or must do so without ISC approval. The ISC also cannot periodically review, as required by statute, the overall effectiveness and efficiency with which the state's information systems network is managed (page 6).

### **Management Cannot Provide Documentation That Would Support and Justify the Rates Charged by OIR for Equipment and Services**

OIR cannot document how most current and recent rates were established. This documentation is

critical because part or all of OIR bills are passed on to federal granting agencies providing funding to state agencies (page 8).

### **The Billing System Is Weak and Inadequate for Accurate Management Oversight**

Agencies state that OIR billings are confusing and inadequate for project management. OIR relies on the agencies to verify that the items they are billed for are correct (page 9).

## OBSERVATION AND COMMENT

The audit also discusses the following issue: current status of ITPRO contract and contractor conversion (page 4).

## **ISSUES FOR LEGISLATIVE CONSIDERATION**

The General Assembly may wish to consider amending Section 4-3-5501, *Tennessee Code Annotated*, to require the Information Systems Council to meet several times a year to fulfill its statutory responsibilities (page 12).

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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# **Performance Audit Office for Information Resources**

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## **TABLE OF CONTENTS**

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	<u>Page</u>
<b>INTRODUCTION</b>	<b>1</b>
Purpose and Authority for the Audit	1
Objectives of the Audit	1
Scope and Methodology of the Audit	1
Organization and Statutory Responsibilities	2
Revenues and Expenditures	2
 <b>OBSERVATION AND COMMENT</b>	 <b>4</b>
Current Status of ITPRO Contract and Contractor Conversion	4
 <b>FINDINGS AND RECOMMENDATIONS</b>	 <b>6</b>
1. The Information Systems Council (ISC) has met only twice since March 2001	6
2. Management cannot provide documentation that would support and justify the rates charged by OIR for equipment and services	8
3. The billing system is weak and inadequate for project management	9
 <b>RECOMMENDATIONS</b>	 <b>12</b>
Legislative	12
Administrative	12

# **Performance Audit Office for Information Resources**

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## **INTRODUCTION**

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### **PURPOSE AND AUTHORITY FOR THE AUDIT**

This performance audit of the Office for Information Resources was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-225, the Department of Finance and Administration is scheduled to terminate June 30, 2004. This report on the Office for Information Resources is one of a series of audits of the department. Other audit reports will cover the Bureau of TennCare and the Division of Mental Retardation Services in the department. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. The audit is intended to aid the committee in determining whether the Department of Finance and Administration should be continued, restructured, or terminated.

### **OBJECTIVES OF THE AUDIT**

The objectives of the audit were

1. to evaluate the efficiency and effectiveness of the office's activities and programs and
2. to develop possible alternatives for legislative and administrative actions that could result in more efficient and/or effective operation of the commission.

### **SCOPE AND METHODOLOGY OF THE AUDIT**

The Office for Information Resources' activities were reviewed for the period January 2000 through September 2003. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America and included

1. a review of applicable statutes and rules and regulations;
2. an examination of office policies, procedures, and internet/intranet sites;
3. a review of prior performance audits; and
4. interviews with OIR staff and agency information systems directors.

## **ORGANIZATION AND STATUTORY RESPONSIBILITIES**

The Office for Information Resources (OIR) is responsible for providing direction, planning, resources, execution, and coordination for managing the information systems needs of the state. As a division within the Department of Finance and Administration, OIR's clients are primarily state agencies, departments, and commissions, although it also provides some services to federal and local governmental entities. OIR serves as staff to the Information Systems Council and, under the ISC's guidance, provides technical direction, resources, and infrastructure to the state.

OIR consists of approximately 373 employees grouped into four sections: Operations and Infrastructure Support; Emerging Technologies, Projects, and Applications; Quality, Planning, Performance, and Security; and Administration and Fiscal Support Services. (See organization chart on the following page.)

## **REVENUES AND EXPENDITURES**

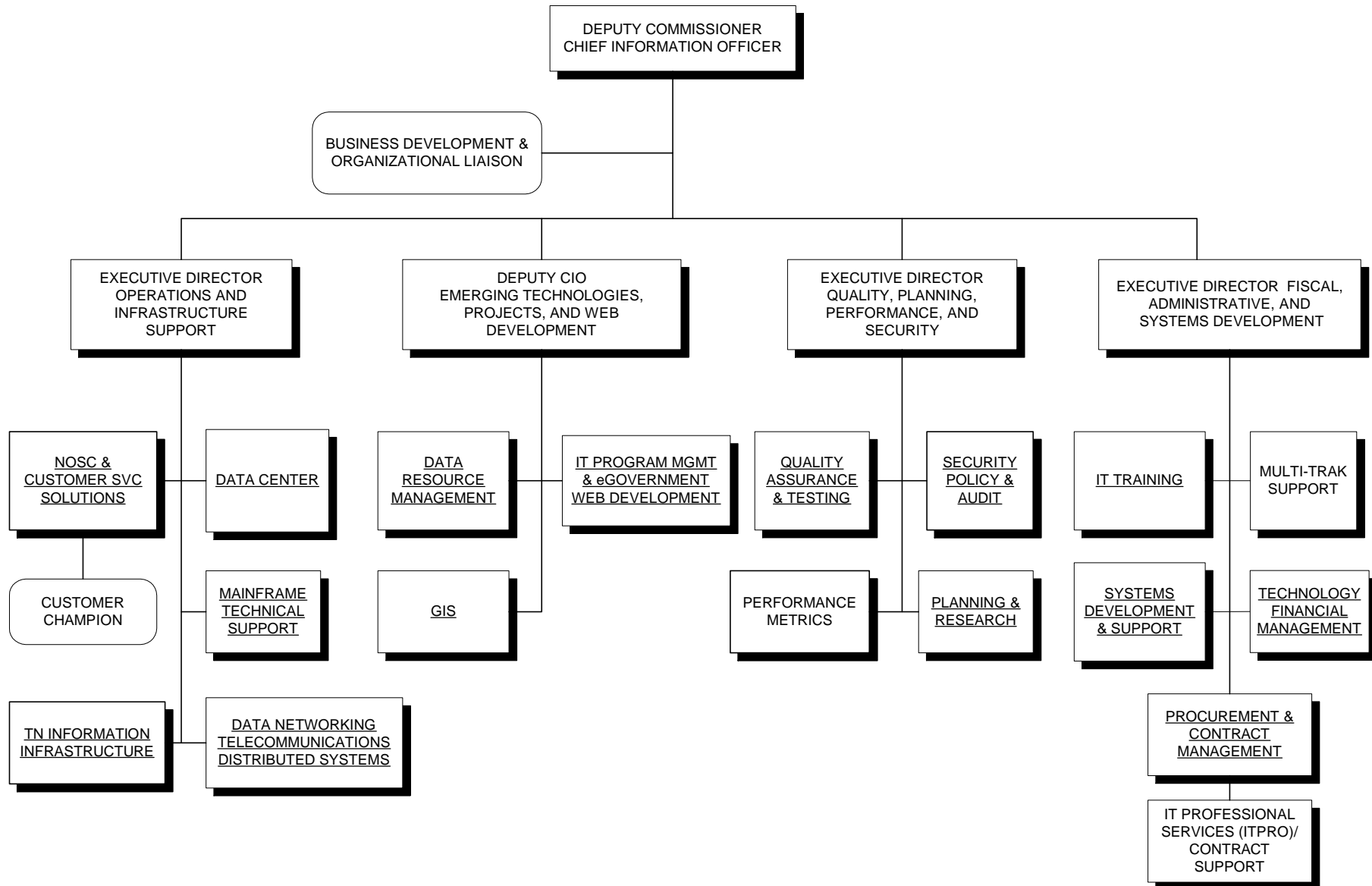
OIR had total expenditures of \$129,282,800 for the year ended June 30, 2002. The budget for the fiscal year ending June 30, 2003, was \$148,527,500. In that budget, \$2,500,000 (2%) was funded from state appropriations, and the remainder was funded through billing agencies for services. The estimated total expenditures for the Department of Finance and Administration were \$6,481,737,400 for the year ended June 30, 2002 (including the Bureau of TennCare). The budget for the fiscal year ended June 30, 2003, was \$6,712,017,400. In that budget, 29% was funded from state appropriations, 58% from federal funds, and 13% from other sources.



# OFFICE FOR INFORMATION RESOURCES

## Organization Chart

### December 2003



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## **OBSERVATION AND COMMENT**

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The topic discussed below did not warrant a finding but is included in this report because of its effect on the operations of the Office for Information Resources and on the citizens of Tennessee.

### **CURRENT STATUS OF ITPRO CONTRACT AND CONTRACTOR CONVERSION**

In 1997, OIR entered into contracts with seven vendors to provide state agencies with a flexible means of obtaining qualified personnel to meet their information technology needs. The object of these Information Technology Professional Services (ITPRO) contracts is to provide state agencies with qualified Information Technology professionals to perform software programming, software system modifications, and database administration services. Agencies have used the contract to secure the services of contractors to both develop and program systems and databases, and systems analysts to support the maintenance of existing applications. Other uses for contractors include providing support for advanced Web development, technical support to repair desktop computers, and assistance with agency help desks. Agencies wishing to use a contractor must submit to the vendors a Statement of Work (SOW) that details the nature of the work to be performed and then select a contractor based on a structured, competitive process.

In April 2003, the Comptroller's office issued a special report on ITPRO contracts that highlighted (1) failures in agency oversight of contractors that resulted in excessive overbillings that OIR authorized and paid and (2) the use of ITPRO contracts that were not cost-effective to the state and raised a legal question of whether or not these contractors were de facto state employees due to the ways in which they were being used.

The current ITPRO.03 contract for March 1, 2003, through February 28, 2005, (the successor to the ITPRO.2K contract for 4/17/00 to 4/16/03 in place when the special report was published in April 2003) is a multi-vendor contract that provides three OIR prequalified vendors. Changes in the latest ITPRO contract include an approximately 13% reduction in rates; a requirement that agencies take the lowest bid, which is a maximum hourly rate, provided it fulfills their Statement of Work; and a reduction in the standard work week from 40 to 37½ hours.

Currently, there is a freeze on hiring ITPRO contractors and on ITPRO contractor overtime that requires commissioner-to-commissioner requests and preapprovals in each instance. To hire an ITPRO contractor, agencies must be very clear that the contractor is for a specific project with a definite ending date. Previously, the agencies were responsible for oversight of contractor overtime. If the agency signed off on a contractor's time, OIR was authorized to pay for those hours. Now, with the freeze, reports of those contractors working overtime are compared monthly to a database of contractors who have been preapproved for overtime. Agency managers must also initial each line of a timesheet that is over the contract

standard work week. OIR disseminated a policy manual to state agencies and contractor companies regarding the use of such contractors in November 2003.

Currently, the state is evaluating contractor usage on an individual basis and either converting contractor positions into state positions, retaining contractors, or terminating contracts. Contractor conversion involves not only the ITPRO contract, but also two other contracts for information technology personnel. OIR requests a weekly update from agencies on contractor status. As of September 12, 2003, of 380 total contracted positions, 99 have been converted into state employee positions; 216 are in the process of conversion or are flagged for conversion; and 57 are not to be converted because the skills are extremely specialized or the positions have been/will be terminated. For eight positions, agencies have not decided whether the positions will be terminated or converted. According to OIR, completed conversions have realized a savings of \$2,115,454; positions flagged for conversion or in the process of conversion will realize an annual savings of \$3,551,144; and undecided positions could realize a savings of \$107,033 if converted or terminated.

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## FINDINGS AND RECOMMENDATIONS

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### 1. The Information Systems Council (ISC) has met only twice since March 2001

#### Finding

Prior to its September 25, 2003, meeting, the Information Systems Council (ISC) had not met since June 3, 2002, and prior to this date, the last meeting of the ISC was 15 months earlier in March 2001. According to former and current administrators, the lack of meetings is because budget issues, the search for a new state CIO, and new political appointments have taken priority. State statute does not require the ISC to meet with a certain frequency. However, without the oversight that the ISC was intended to provide, OIR cannot establish and move on policy issues (short- and long-term) or must do so without ISC review. The ISC also cannot periodically review, as required by statute, the overall effectiveness and efficiency with which the state's information systems network is managed.

Created by statute in 1994, the 15-member ISC is composed of the commissioners of Finance and Administration and General Services, the Comptroller of the Treasury, three members each of the state senate and house of representatives, and two private citizens who have demonstrated expertise and experience in managing large and diverse information management systems. The two private citizen members of the council are appointed by the Governor for three-year terms. The members from the senate and house are appointed by their respective speakers. The chief justice of the supreme court of Tennessee or a designee is also a full voting member of the Information Systems Council. There are also two nonvoting members of the council: chair of the state employee-run information systems management group and a state employee selected by the Tennessee State Employees Association who has experience in the field of information systems. In addition, one of the directors of the Tennessee Regulatory Authority, to be appointed by the chair of the authority, serves as a member whenever the council considers statewide telecommunications issues or other matters relating directly to areas over which the authority has responsibility. The Commissioner of Finance and Administration acts as chair of the Information Systems Council.

Section 4-3-5502, *Tennessee Code Annotated*, states that the statutory duties and responsibilities of the Information Systems Council include

- (1) Developing policy guidelines for the overall management of the state's information systems which shall include, but not be limited to, the following:
  - (A) Appropriate hardware and software for the state's data center;
  - (B) Appropriate security and disaster recovery policies and procedures for the state's information systems environment;
  - (C) The most appropriate and cost effective use of departmental computer systems which shall, for the purpose of this policy, include the appropriate

use and integration of microcomputers and minicomputers into the state's information management system;

- (D) The most appropriate and cost effective telecommunication policies;
  - (E) Establishment of guidelines for the acquisition of both hardware and software;
  - (F) Making recommendations to the governor and general assembly regarding amendments to the purchasing laws which would be helpful in establishing and operating information systems; and
  - (G) Establishment of effective long-range planning for the state's information management system, and
- (2) To periodically review the overall effectiveness and efficiency with which the state's information systems network is managed. Such review shall be conducted where appropriate on a department by department basis and shall be for the purpose of identifying weaknesses in the current system as well as opportunities for improvements in each department's information system. Such reports as may be issued pursuant to this review shall be transmitted to the appropriate agency head, the governor and the speakers of the senate and house of representatives. Such a review shall include, but not be limited to:
- (A) The adequacy of systems development planning and implementation;
  - (B) Opportunities for increased efficiency through either a reduction of the long run current operating costs for various programs of state government and/or the opportunity to provide increased services through more effective use of management information systems; and
  - (C) The most appropriate and cost effective hardware and software.

Tennessee taxpayers are demanding increased services that are more timely and cost-effective. Information and technology are two major ingredients in constructing an infrastructure that will enable this demand to be realized. It is therefore important that the Information Systems Council meet as it is the organization statutorily responsible for the successful and effective implementation of the applications and technologies delivering services to the citizens of the state.

### **Recommendation**

The Information Systems Council should meet regularly several times each year at the call of its chair to provide guidance to and oversight of the Office for Information Resources.

The General Assembly may wish to consider amending Section 4-3-5501, *Tennessee Code Annotated*, to require the Information Systems Council to meet several times a year to fulfill its statutory responsibilities.

### **Management's Comment**

We concur. The Deputy Commissioner and Chief Information Officer and the Chair have stated that the intent is for the Information Systems Council (ISC) to meet quarterly. The ISC met September 25, 2003, and December 10, 2003, and meetings are scheduled for March 16, June 15, and September 14, 2004. Therefore, we do not think it is necessary to legislate mandatory meetings in order for the council to fulfill its statutory responsibilities.

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## **2. Management cannot provide documentation that would support and justify the rates charged by OIR for equipment and services**

### **Finding**

For accounting and reporting purposes, the Office for Information Resources is operated as an internal service fund. As such, OIR's provision of goods and services to other departments and agencies should be on a cost-reimbursement basis. Internal service funds are set up to take advantage of economies of scale, to avoid duplication of effort, and to accurately identify costs of specific government services. An internal service fund sets its rates only to recover the cost of providing particular services. However, OIR cannot document how most current and recent rates were established. This documentation is critical because part or all of OIR bills are passed on to federal granting agencies providing funding to state agencies. OMB Circular A-87, Attachment C, establishes the guidelines by which federal awards bear their fair share of cost and requires all billed central service activity to separately account for revenues generated by a service, expenses incurred to furnish the service, and any profit or loss.

According to OIR's current financial manager (in office since December 2002), at present each OIR section director gathers cost information and submits it in a spreadsheet to the financial manager, who then verifies the information and compares it to current revenue. OIR bills agencies for things such as equipment, telephone and voice services, local area and wide area network connections, cabling infrastructure, and personnel to name a few. This information is then brought before a committee of OIR's upper-level management for approval of rates. Rates are published annually in August on OIR's intranet site for other agencies' use in their budget process for the next fiscal year. Therefore, agency budgets are based on OIR rates set at least a year earlier.

Though the primary goal of an internal service fund is to "break even," OIR has no formal or written policies for rate analysis, establishment, and adjustment. Neither could OIR management provide original base documentation supporting cost figures, rate analysis, and management approval of rates. According to the Department of Finance and Administration,

their Office of Business and Finance prepares quarterly cost recovery schedules which are used annually to rebate to agencies their payments in excess of costs. Monthly information is also available within STARS. However, the Office of Business and Finance was unaware whether OIR uses the cost recovery schedules and stated that the office is working with OIR to facilitate their use of these tools already at their disposal. According to OIR's current financial manager, a formalized process is under development.

### **Recommendation**

Upper management, in consultation with the financial manager, should continue their efforts to formalize the rate-setting process. Sufficient analysis must be conducted and documentation maintained to verify and ensure that rates are reasonable and represent recovery of costs.

### **Management's Comment**

We concur. The annual rate review process will be adequately documented, a cost model will support new rates, rate adjustments will be documented and documentation of rate approval and review by upper management will be maintained.

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## **3. The billing system is weak and inadequate for project management**

### **Finding**

Concerns about the Office for Information Resources' current billing process, particularly for LAN/WAN (local area network/wide area network) services, as expressed by OIR and other state agency staff, highlight a system in which the accuracy of billing information relies on communication between staff within OIR and on the billed agencies regularly reconciling bills and responding accurately to requests from OIR asking what the agency should be billed for. However, agencies also complain that OIR's billing system is confusing in nature, difficult to reconcile, and fragmented, making it extremely difficult for agencies to reconcile and manage their technology projects. The accuracy and detail of OIR billings is also important as many agencies pass on part or all of these expenses, subject to the requirements of OMB Circular A-87 Attachment C, to federal grant agencies that provide funding. Ninety-eight percent of OIR's budget is funded through billing agencies for services.

Weaknesses in the billing process were noted with both OIR and the agencies. OIR management states it has not done all it could to keep accurate counts and does not have the electronic capability to verify "hot" or active services itself from outside the agency. Information about new billings and changes to existing billings are conveyed manually by phone or e-mail to F&A Billing Services from the various sections in OIR. OIR also relies on the agencies keeping track of physical inventory and leased services and verifying OIR's records and telling the office what it should or should not be paying for. OIR management suspects that

agencies have not done a good job keeping track of their inventory and leased services. Nor have some agencies' management been routinely reconciling OIR billings or, if they do, they admit to not understanding parts of the bills.

An unusual and extreme example of the inherent problems in OIR's billing process is one where an unwritten agreement was made between OIR and an agency regarding work and billing rates that deviated from normal operating/billing procedures. When personnel changes occurred in several key positions at both OIR and the agency, the new personnel were not aware of the unwritten agreement and its terms. Agency personnel were not diligently reconciling the monthly OIR bills. Much later, the agency discovered the billings did not conform to the unwritten agreement and, following consultation with OIR, the agency was able to obtain a refund of almost \$100,000 for fiscal year 2003.

OIR bills for manpower, equipment, LAN/WAN, and telecommunications. Billing reports are made available to agencies via INFOPAC. According to various state agencies, reconciling OIR billings is complicated because the information needed to properly track billings to RFSs (Requests for Service) is not provided in the bill itself. Instead, at least one more source must be consulted to connect a billing back to the RFS. According to some agencies, it is difficult to determine what an agency is being billed for, codes and report titles are cryptic, and different activities/equipment are combined in OIR billings and INFOPAC reports. These billings lack sufficient detail for project management, analysis, and reconciliation by agency personnel. They make financial aspects of project management very cumbersome, particularly when no cumulative project reporting is available. The Information Systems Managers Steering Committee formally presented these concerns to OIR in Fall 2002 in the form of a White Paper.

According to OIR, their billing process is circumscribed by the limitations of the hardware and software used to track and bill for OIR services. Most of the statewide systems involved (Data Capture, Payroll, POST, STARS, MULTITRAK, INFOPAC) are 10, 20, or 30 years old. Certain coding, formats, etc., on bills may not be explained within the system, and the system may not be able to sort, analyze, and track information in a way that agencies would like for their own project management.

### **Recommendation**

Management should work with state agencies to determine if there are ways in which agencies can receive from the Office for Information Resources the information they need to properly reconcile, track, and manage their technology projects and use of the OIR services they pay for. The management of OIR and state agencies should also take steps to make sure that the bills are accurate and that both OIR and the agencies can document charges passed on to federal granting agencies as required by OMB Circular A-87.



### **Management's Comment**

We concur with this finding. Much of the coding structure to identify charge backs is decades old and constructed based on capabilities that existed at a particular point in time. The various systems used to track and bill for service delivery vary in age from a few to many years old.

OIR management initiated a process several months ago to investigate the marketplace in order to replace the current, "sunset" MultiTrak software, as well as to obtain a software tool with added capabilities of providing enhanced Project Management Support and tracking visibility for outside customer agencies. There are solutions that are vastly more effective than those currently used by the state.

A project is now being undertaken by OIR's IT Program Management team, in coordination with all other essential OIR key staff, and a selected group of external agency stakeholders, to gather and fully document all the requirements of a new system – and then to RFP a replacement system which would be installed to support current and future needs. This analysis effort will consider the needs within OIR, F&A Office of Business and Finance, and the agencies that OIR services.

The high level time frame estimated to complete the study, a competitive procurement, and implementation is 24 months.

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## RECOMMENDATIONS

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### LEGISLATIVE

This performance audit identified an area in which the General Assembly may wish to consider statutory changes to improve the efficiency and effectiveness of the Office for Information Resources' operations.

1. The General Assembly may wish to consider amending Section 4-3-5501, *Tennessee Code Annotated*, to require the Information Systems Council to meet several times a year to fulfill its statutory responsibilities.

### ADMINISTRATIVE

The Office for Information Resources should address the following areas to improve the efficiency and effectiveness of its operations.

1. The Commissioner of the Department of Finance and Administration, as chair of the Information Systems Council, should ensure that the council meets regularly several times each year to provide guidance to and oversight of the Office for Information Resources.
2. Upper management, in consultation with the financial manager, should continue their efforts to formalize the rate-setting process. Sufficient analysis must be conducted and documentation maintained to verify and ensure that rates are reasonable and produce revenues that do not exceed expenditures.
3. Management should work with state agencies to determine if there are ways in which agencies can receive from OIR the information they need to properly reconcile, track, and manage their technology projects and use of the OIR services they pay for. The management of OIR and state agencies should also take steps to make sure that the bills are accurate and that both OIR and the agencies can document charges passed on to federal granting agencies as required by OMB Circular A-87.